

Fair and Open Conference? Chairman Frank Blocks Republicans From Offering Amendments to Reform Fannie Mae and Freddie Mac

June 23, 2010

WASHINGTON - Financial Services Committee Ranking Member Spencer Bachus today said Chairman Barney Frank's outright ban on consideration of amendments to reform Fannie Mae and Freddie Mac is an abandonment of congressional responsibility and the direct result of Democrats controlling the conference negotiations to protect their taxpayer-funded bailouts.

"Without the ability to even debate how to end the unlimited bailouts for Fannie Mae and Freddie Mac, meaningful GSE reform, which should have been our top priority in this conference, will never come," Bachus said. "Instead, we have focused on other matters, many that are unrelated to the financial crisis, and allowed the GSEs to bleed more than \$146 billion of taxpayer dollars without any plan to staunch the losses.

"Just like their lack of a budget, this is a complete abdication of their congressional responsibility. Thanks to the cameras, now the public knows what the Democrats look like when they protect government bailouts over the interests of taxpayers."

In an exchange with Rep. Jeb Hensarling on the first day of conference, Chairman Frank made it abundantly clear that the rule on scope would be interpreted in a broad manner and that any policy offer, as long as the general subject matter is addressed in the bill, will be reviewed. Mr. Frank: "[I]f the general subject matter is in the bill, I believe we should entertain amendments based on, that is the general approach, and there were not strict rules, but that is the essential policy that is if the subject matter is addressed deposit insurance being mainly a major piece of this then I will entertain a new amendment."

Based on the broad rule on "scope" outlined by Chairman Frank on June 15, 2010, amendments related to Government Sponsored Entities (GSEs) should be considered in this Conference. Other examples in which the Chairman used a "broad" scope test to allow amendments include:

- Waters amendment to reverse the Supreme Court's Stoneridge Investment Partners v. Scientific-Atlanta decision

where the amendment would have allowed plaintiffs in securities fraud cases to allege scheme liability against "secondary actors";

- Two new provisions in the proposed House offer for a permanent extension of the Transaction Asset Guarantee program (TAG) and a permanent increase in deposit insurance to \$250,000, made retroactive to January 1, 2008 to benefit depositors at six failed institutions, including Indy Mac of California; and,

- An Issa amendment to impose lobbying restrictions on those companies where the Federal government has a significant ownership interest.

Republicans have consistently offered solutions to end the \$145 billion and growing taxpayer bailout and to protect taxpayers, but the Democrats have opposed them all. During the conference debate, House Republicans attempted to offer the following proposals in hopes that Democrats would finally relent and include real reform to address one of the root causes of the financial crisis.

Orderly Transition to Privatization - Representative Jeb Hensarling

- This amendment would phase out the taxpayer subsidies of Fannie Mae and Freddie Mac, transitioning them to private, non-governmental enterprises. The amendment would end the conservatorships of both GSEs within two years and, if they are financially viable, allow them to resume operations for a transition period of three years. It would also permanently repeal the GSEs' affordable housing goals mandate. During the transition period, the GSEs would face phased-in new limitations, including smaller portfolio holdings, increased minimum capital requirements, minimum loan down payment requirements, and tighter limits on the size of mortgages that can be securitized. At the end of the transition period, the GSEs' government-granted charters would expire, and they would be required to operate on a level playing field with their private sector competitors and without the benefit of government subsidies.

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Place the GSEs "On Budget" - Representative Scott Garrett

- The non-partisan Congressional Budget Office (CBO) has concluded that Fannie and Freddie have "effectively become government entities whose operations should be included in the federal budget," yet Secretary Geithner has said, "We do not think it is necessary to consolidate the full obligations of Fannie and Freddie onto the nation's budget."

- The Treasury position is surprising considering that taxpayers have already contributed more than \$145 billion to the bail-out of the GSEs, own at least 80 percent of Fannie and Freddie, and have explicitly guaranteed more than \$1.7 trillion of their debt and more than \$5 trillion in mortgages. This amendment would adopt the CBO recommendation and place Fannie and Freddie on budget.

Cap the Bailout - Representatives Spencer Bachus and Ed Royce

- This amendment would limit the amount that the American people would be forced to contribute to the bailout of Fannie Mae and Freddie Mac at \$200 billion. At the outset of the conservatorship, the Bush Administration established a \$200 billion facility to purchase senior preferred stock in the GSEs to backstop their losses. Since then, the Obama Administration first raised the commitment to \$400 billion and then, in a Christmas Eve 2009 raid on the Treasury, announced that it was removing any limits on the use of Federal funds to cover losses at the GSEs.

(History: On September 7, 2008, the Treasury, Federal Reserve and the GSEs' regulator, the Federal Housing Finance Agency (FHFA) placed Fannie and Freddie into conservatorship, and exercised statutory authority granted in July 2008 to establish a \$200 billion facility to purchase senior preferred stock in the GSEs to backstop their losses. In February 2009, the Obama Administration raised this commitment to \$400 billion, before announcing on Christmas Eve 2009 that it was removing any limits on the use of Federal funds to cover losses at the GSEs.)

Establish Special GSE Inspector General - Representatives Judy Biggert and Darrell Issa

- This amendment is similar to what was offered in H.R. 4450 and H.R. 4581, and will establish for the GSEs a Special Inspector General to audit and report to Congress on the activities of the Federal Housing Finance Agency (FHFA) and the GSEs as long as the GSEs are in conservatorship or receivership and are benefiting from taxpayer subsidies.

Strike the Affordable Housing Mandates on the GSEs - Representative Ed Royce

- In 1992 Congress passed legislation mandating that Fannie and Freddie dedicate a significant portion of their portfolios to "affordable housing goals." As a direct result of these mandates the GSEs became the largest purchasers of subprime and Alt-A mortgages, eventually buying up well over \$1 trillion worth. These mandates and the actions that followed were at the heart of the housing bubble and the financial crisis that followed. With the fate of the GSEs in limbo, it is imperative that the mistakes of yesterday are never again repeated. Failing to adopt the Royce amendment would be a failure to acknowledge the role played by the affordable housing goals and the GSEs in the housing collapse.

Apply Salary Caps, FOIA Requirements, Government Ethics Rules to GSEs - Representative Issa

- This amendment incorporates language from previously introduced legislation to subject executives at Fannie Mae and Freddie Mac to the same pay scale applicable to Federal employees (H.R. 4476 - Bachus) and to apply the Freedom of Information Act to Fannie and Freddie during any period that such entities are in conservatorship or receivership (H.R. 5539 - Chaffetz). It also makes Fannie and Freddie employees subject to government ethics rules.

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